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RUEHBJ/AMEMBASSY BEIJING 2240
RUEHKO/AMEMBASSY TOKYO 2105
RUEHIT/AMCONSUL ISTANBUL 2676
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEHNSC/NSC WASHDC
RHMFIUU/CDR USCENCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
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SENSITIVE
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SUBJECT: TURKMENISTAN: NEW WEALTH FUND, BUDGET FIGURES AND
ECONOMIC FORECAST ANNOUNCED AT CABINET OF MINISTERS MEETING

REF: ASHGABAT 1370

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: In an extended Cabinet of Ministers meeting on October 21, the government announced that Turkmenistan's 2009 state budget will be 39.5 percent higher than the 2008 budget. Expenditures on education and healthcare will rise by 13 percent. The government is also planning a ten-percent hike in salaries, pensions, and student scholarships. The president discussed the creation of a stabilization fund that will be used to shield Turkmenistan from effects of worldwide economic crises through funding social development projects, and provide a financial basis for future generations. Western donors have been discussing the benefits of planning for the economic future of the country for a long time, but as always, the value of this fund will become apparent in its execution.
END SUMMARY.

2009 BUDGET AND ECONOMIC FORECAST FIGURES ANNOUNCED

13. (U) During an extended meeting on October 21, the Cabinet of Ministers discussed domestic economic and financial issues for the year 2009, including the state budget, the planned redenomination of the manat, and economic development. President Berdimuhamedov announced that the 2009 state budget will be 39.5 percent higher than the 2008 budget at 294.5 trillion manat, or 58.9 trillion redenominated manat. Investments in social sectors such as education, social assistance, and healthcare will be 13 percent over expenditures made in 2008, at 18.1 trillion manat. The government will devote "significant expenditures" to develop tourism and sport (reftel) in order to carry out the goals set forth in the President's National Plan until 2020. Centralized capital investments will make up the largest budget item with an increase of 37.1 percent above the 2008 level to 16.6 trillion manat. A ten percent increase in salaries, pensions, and student scholarships is also planned. The government predicts 2009 GDP growth rate of 110.7 percent over 2008, and an inflation rate of seven or eight

percent.

NEW STABILIZATION FUND FOR DOMESTIC PROJECTS AND LONG-TERM INVESTMENTS

¶4. (U) Turkmenistan will also create a stabilization fund to offset negative effects of worldwide economic crises on the domestic economy, through providing financial support for social-economic development projects. The president added that the existence of the fund will enable the country to reduce its economic dependence on the oil and gas sector through the creation of a wealth fund which will invest revenues in "low-risk, long-term, high-growth" investments. The president said that future generations will benefit from the profits generated by these investments.

¶5. (SBU) European Bank for Reconstruction and Development (EBRD) Resident Office Head Neil McKain said that if the Foreign Exchange Reserve Fund (FERF) -- the largest of the extrabudgetary funds -- will be reformed as a result of the establishment of the wealth fund, it may mean that EBRD will be able to invest in the oil/gas and state sectors. According to McKain, the World Bank team that helps countries with oil and gas wealth funds helped Turkmenistan to organize this wealth fund. He also said that Turkmenistan is using the Norwegian Statoil fund model. McKain added that the timing of the announcement of this wealth fund -- a week after the announcement of the Gaffney-Cline results -- is perfect.

¶6. (SBU) COMMENT: Western donors have been pushing

ASHGABAT 00001394 002 OF 002

Turkmenistan to consider establishing a wealth fund for a long time, and it's a step in the right direction. However, as always in Turkmenistan, the proof of the value of this activity will lie in the execution -- especially as the leadership has not always spent money with the welfare of the Turkmen people first and foremost in mind. END COMMENT.
CURRAN